Utah State Retirement Systems Overview

September 9, 2009

Prepared by the Office of Legislative Research and General Counsel

July 2009

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Utah State Retirement Systems

Six Participant Systems

Judges

Public Employees Noncontributory
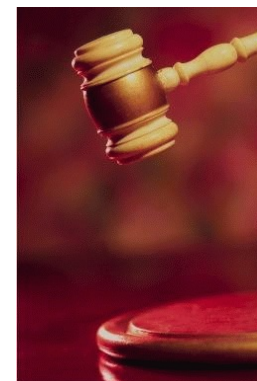
Public Safety

Public Employees Contributory

Firefighters

Governors & Legislators

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Utah State Retirement Systems

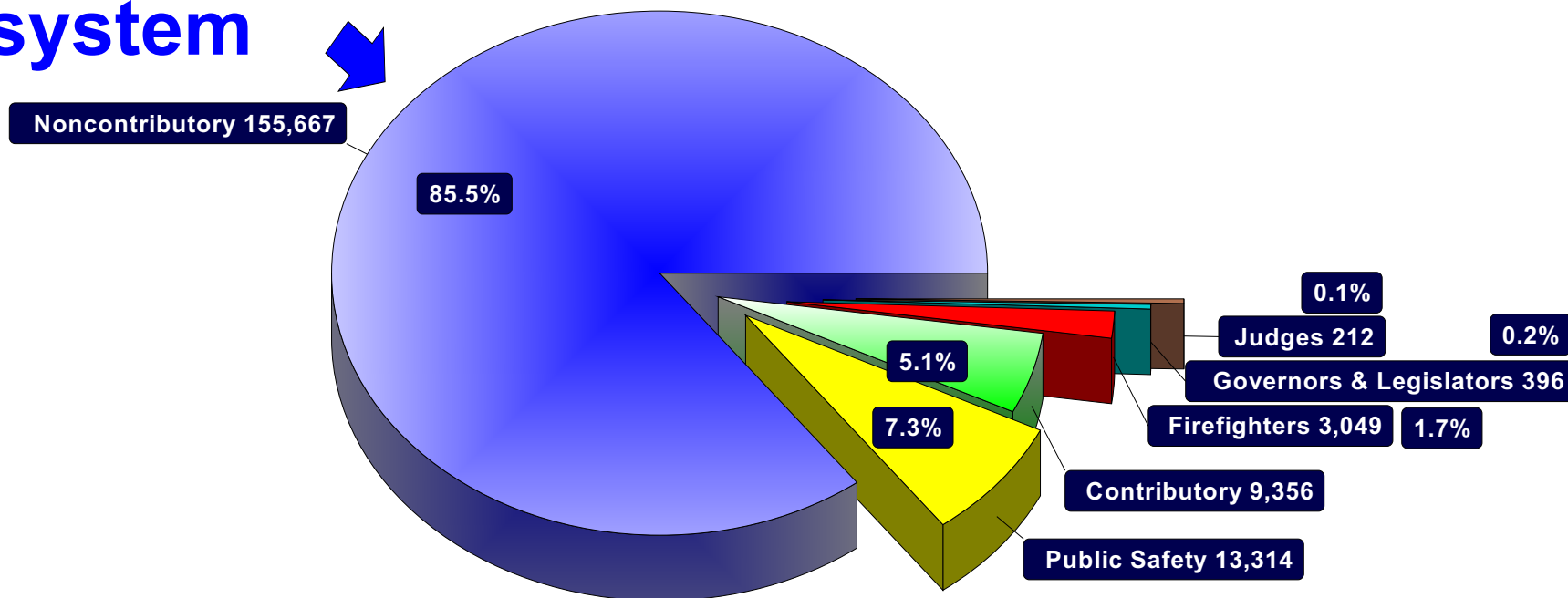## Six Participant Systems - With Divisions

- Public Employees Noncontributory

- Public Employees Contributory

- Public Safety
  - ‣ Noncontributory - Division A (with Social Security)
  - ‣ Noncontributory - Division B (without Social Security)
  - ‣ Contributory - Division A (with Social Security)
  - ‣ Contributory - Division B (without Social Security)

- Firefighters Contributory
  - ‣ Division A (with Social Security)
  - ‣ Division B (without Social Security)

- Judges
  - ‣ Noncontributory
  - ‣ Contributory

- Governors and Legislators

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Utah State Retirement Systems

Total System Membership
181,994
As of December 31, 2008

The "big" system

Noncontributory 155,667

85.5%

5.1%

7.3%

0.1%

Judges 212

0.2%

Governors & Legislators 396

Firefighters 3,049   1.7%

Contributory 9,356

Public Safety 13,314

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Utah State Retirement Systems

Active Membership
106,285

As of March 31, 2009

Public and Higher Education 55,166

51.9%

2.1%

Other 2,207

19.0%

27.0%

State of Utah 20,202

Counties, Municipalities, and Local Districts 28,710

Source: Utah Retirement Systems, July 17, 2009

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Utah State Retirement Systems

Total Participating Employers
444
Retirement System Offered

- Judges
- Governors & Legislators
- Firefighters

- Public Safety
- Contributory
- Noncontributory

416

158

128

52

1

1

Source: Utah Retirement Systems Comprehensive Annual Financial Report;
For the Year Ending Dec. 31, 2008
July 2009

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Utah State Retirement Systems

Defined Benefit
Retirement Allowance Components

- **Years of Service** (years of service credit)

- **Multiplier** (e.g. 2% per year of service)

- **Final Average Salary** (average of highest three years)

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Utah State Retirement Systems

Annual Retirement Benefit

Noncontributory

Formula:

Years of Service *X* 2% *X* Final Average Salary

(FAS = Average of highest 3 years)

Example:

30 years *X* 2% = 60%

Highest Years:

Yr. 1 **$40,240+**
Yr. 2 **$45,000+** ÷ **3 = $44,681**
Yr. 3 **$48,803**

60% *X* $44,681 = $26,808

$44,681 is the final average salary of 2008 retirees, Comprehensive Annual Financial Report , Dec. 31, 2008

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Plus up to 4% annual Cost of Living Adjustment

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Utah State Retirement Systems

Eligibility for Retirement

Noncontributory

Age 65

4

Age 62 **With Actuarial Reduction**

10

Age 60 **With Actuarial Reduction**

20

Any Age * **(with purchase or with Full Actuarial Reduction)**

25

Any Age

30

Years of Service
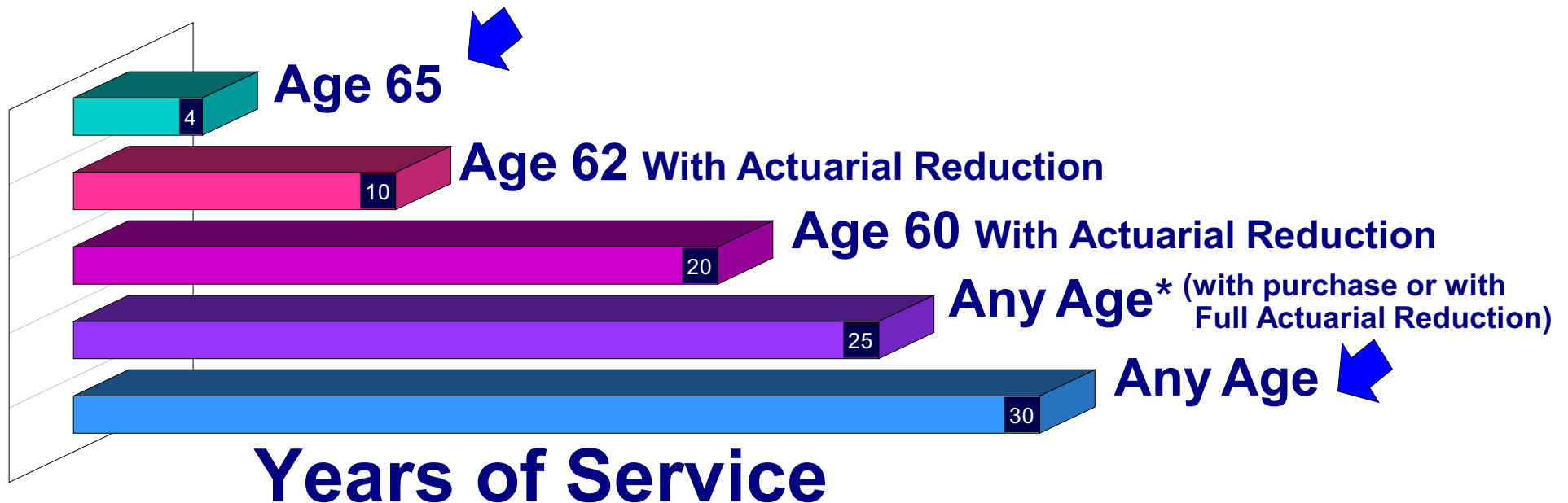
*Option not available in Contributory System

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Utah State Retirement Systems Revenue Sources

All Six Systems – Average Annual Total = $1,638.4 Million
(In Millions)

Ten-Year Average 1997- 2006

Investment Income $2,518

81.1%

0.2%

Transfers from Systems $6

0.4%

Court Fees and Premium Tax $11

Member Contributions $45

1.5%

16.9%

Employer Contributions $523
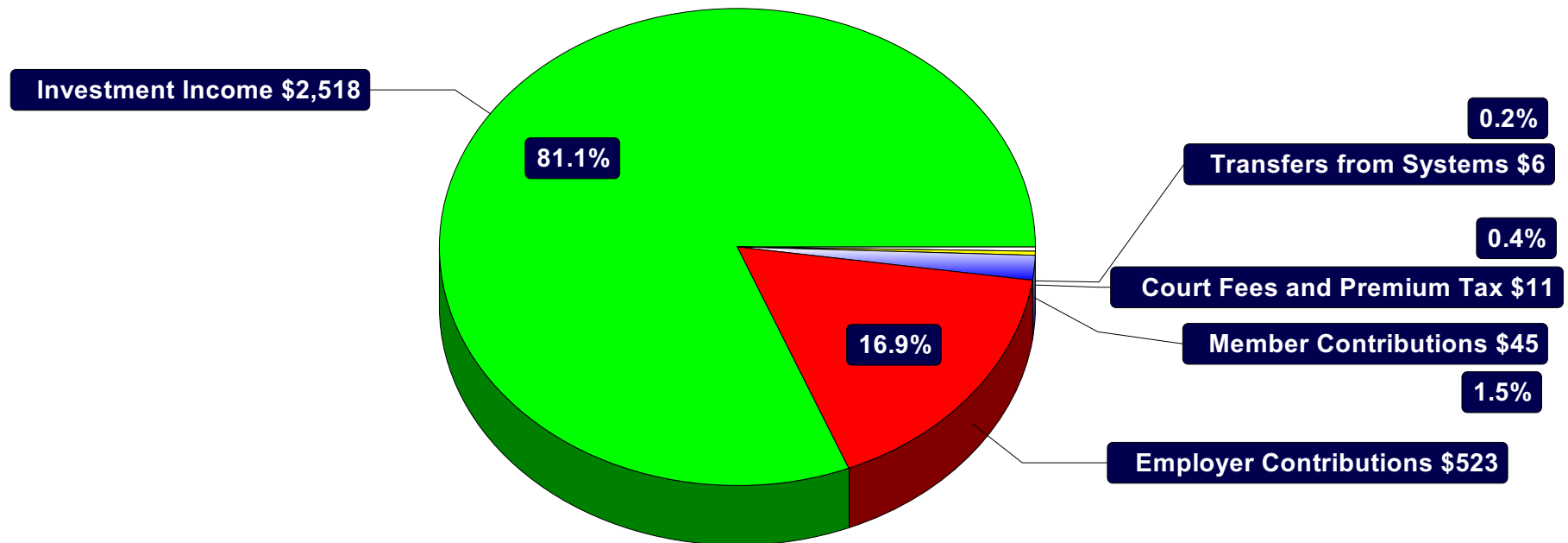
Utah State Retirement Systems Revenue Sources

All Six Systems – Average Annual Total = $1,095.7 Million
(In Millions)

Ten-Year Average 1999- 2008

Investment Income $571.1

52.1%

Court Fees and Premium Tax $10.7

1.0%

3.3%

Transfers from Systems $22.1

2.0%

Member Contributions $35.9

41.6%

Employer Contributions $455.8
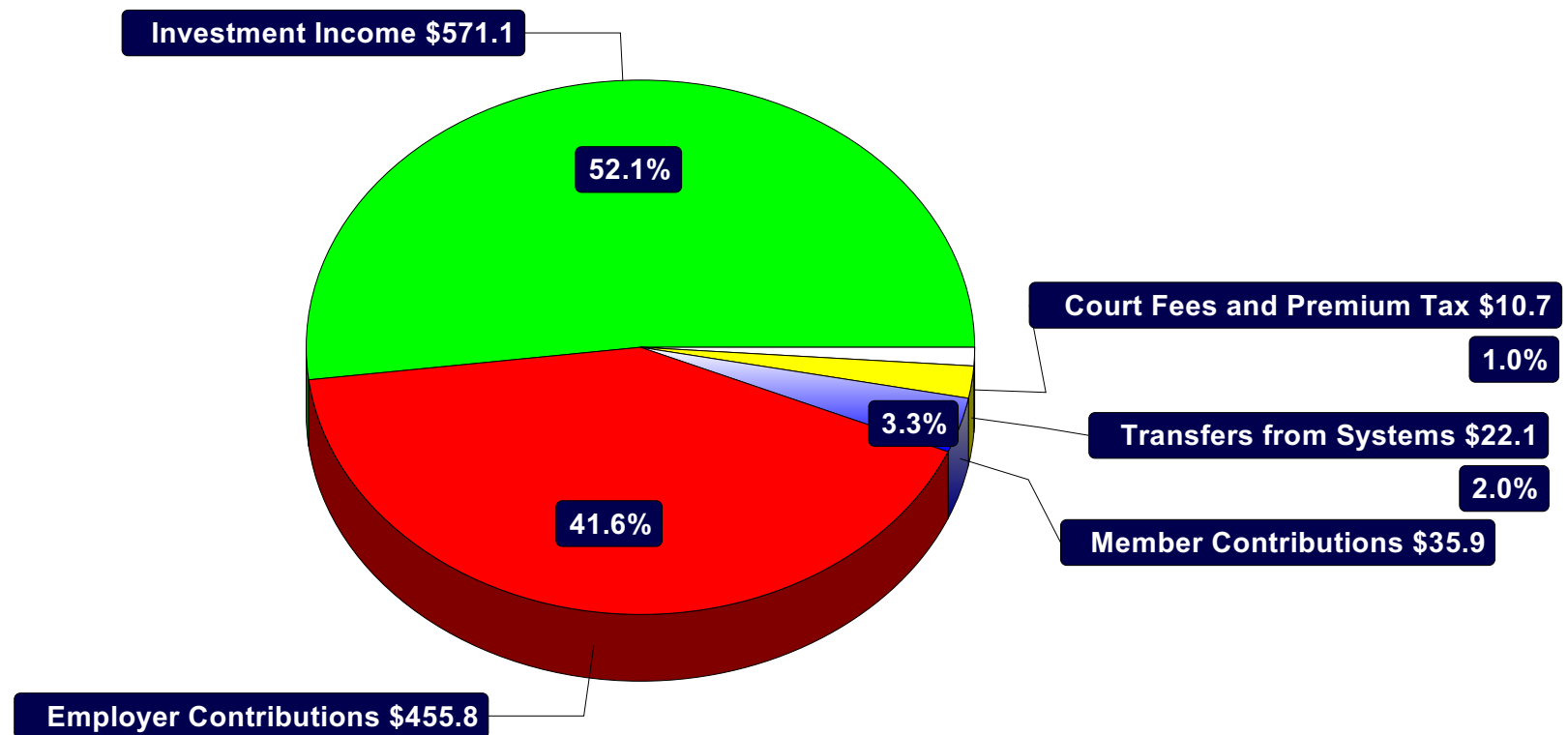
Source: Utah Retirement Systems Comprehensive Annual Financial Reports 2000 to 2008 For the Year Ending Dec. 31.

Utah State Retirement Systems

Noncontributory – Revenue Sources*

(Millions)

*Not included – Transfers from Systems and Member Contributions averaging $18.5 and $12.9 million respectively.

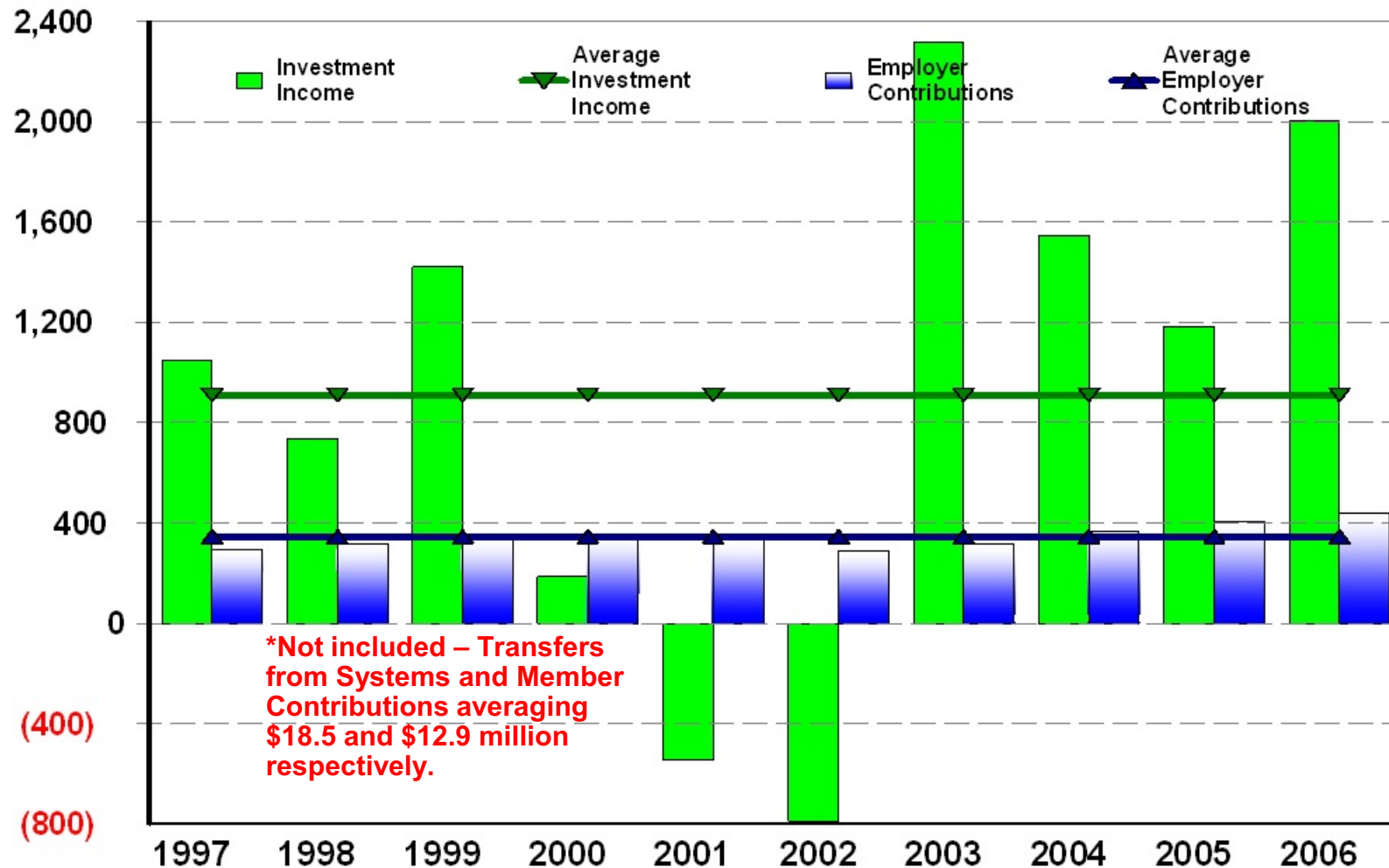Prepared by the Office of Legislative Research and General Counsel – August 2007
Source: Utah Retirement Systems Comprehensive Annual Financial Reports 2000-2006 – For the Year Ending Dec. 31.

Utah State Retirement Systems

Noncontributory – Revenue Sources*

- Investment Income
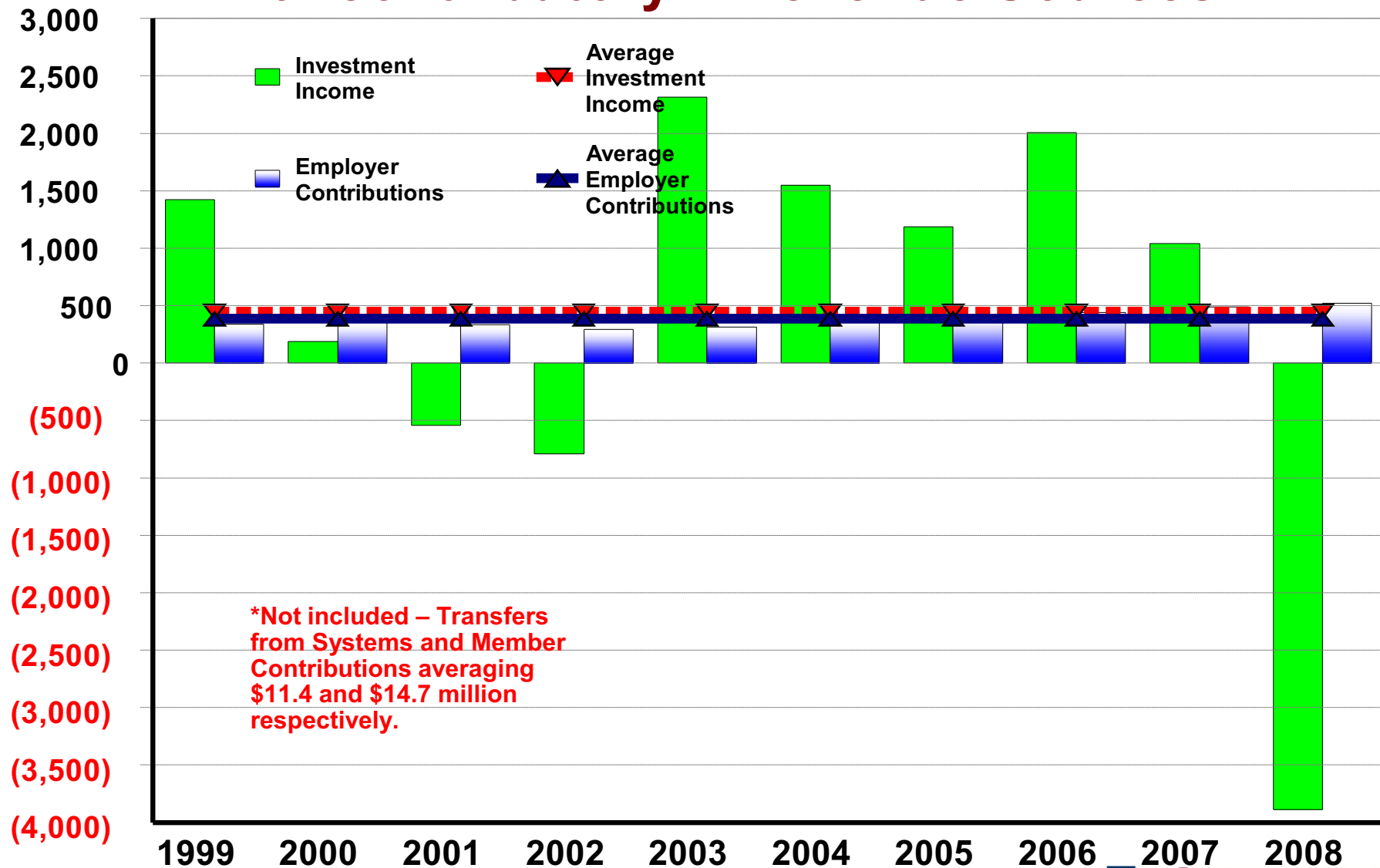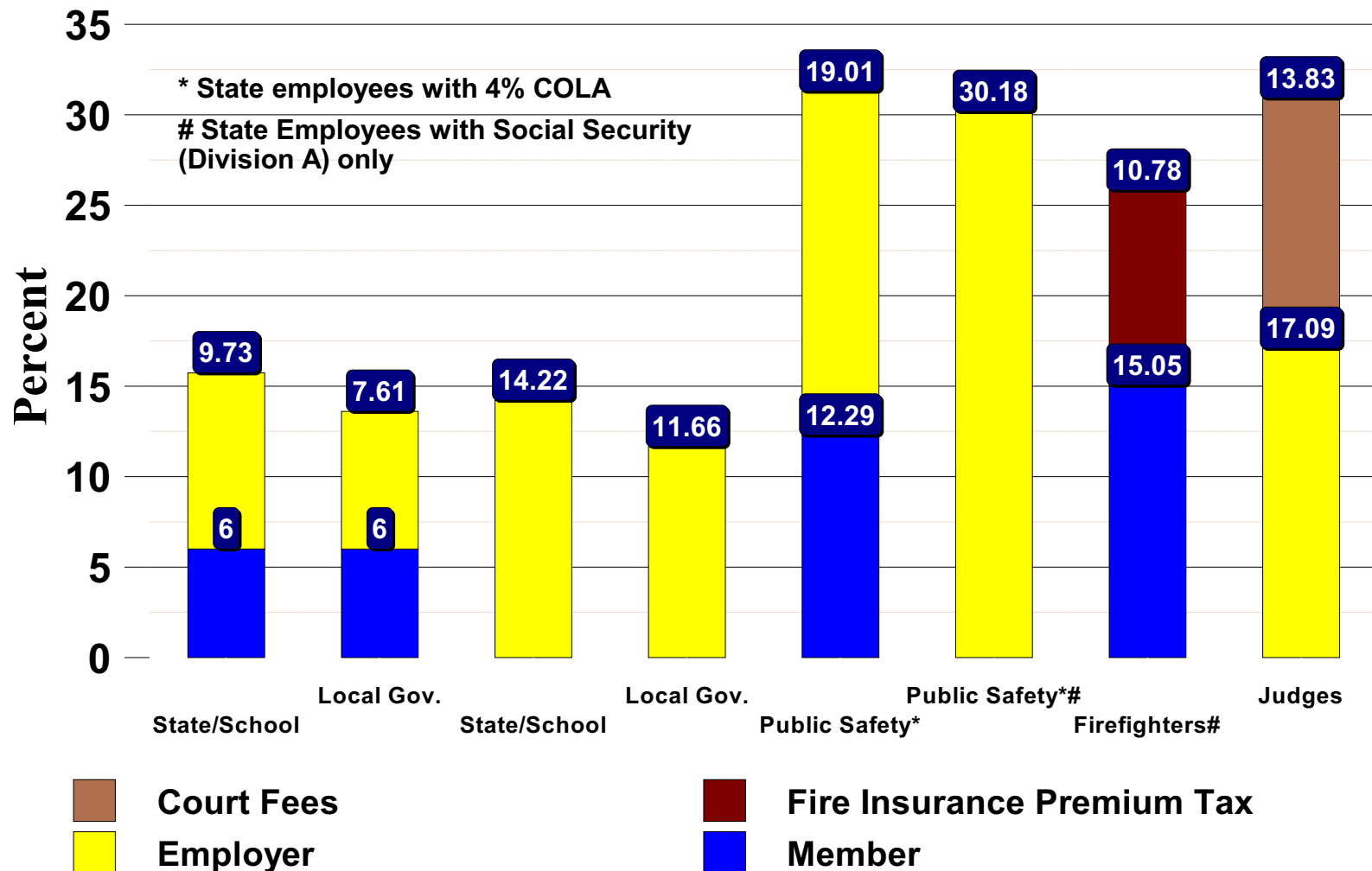- Average Investment Income
- Employer Contributions
- Average Employer Contributions

*Not included – Transfers from Systems and Member Contributions averaging $11.4 and $14.7 million respectively.

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Utah State Retirement Systems

FY 2010 Contribution Rates – Percent of Salary

* State employees with 4% COLA

\# State Employees with Social Security (Division A) only

Legend:
- Court Fees
- Employer
- Fire Insurance Premium Tax
- Member

Categories and values:

Category	Member	Employer	Other
State/School	6	9.73	
Local Gov.	6	7.61	
State/School		14.22	
Local Gov.		11.66	
Public Safety*	12.29	19.01	
Public Safety*#		30.18	
Firefighters#	15.05		10.78 (Fire Insurance Premium Tax)
Judges	17.09		13.83 (Court Fees)

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Utah State Retirement Systems

FY 2011 Contribution Rates – Percent of Salary

August 2009

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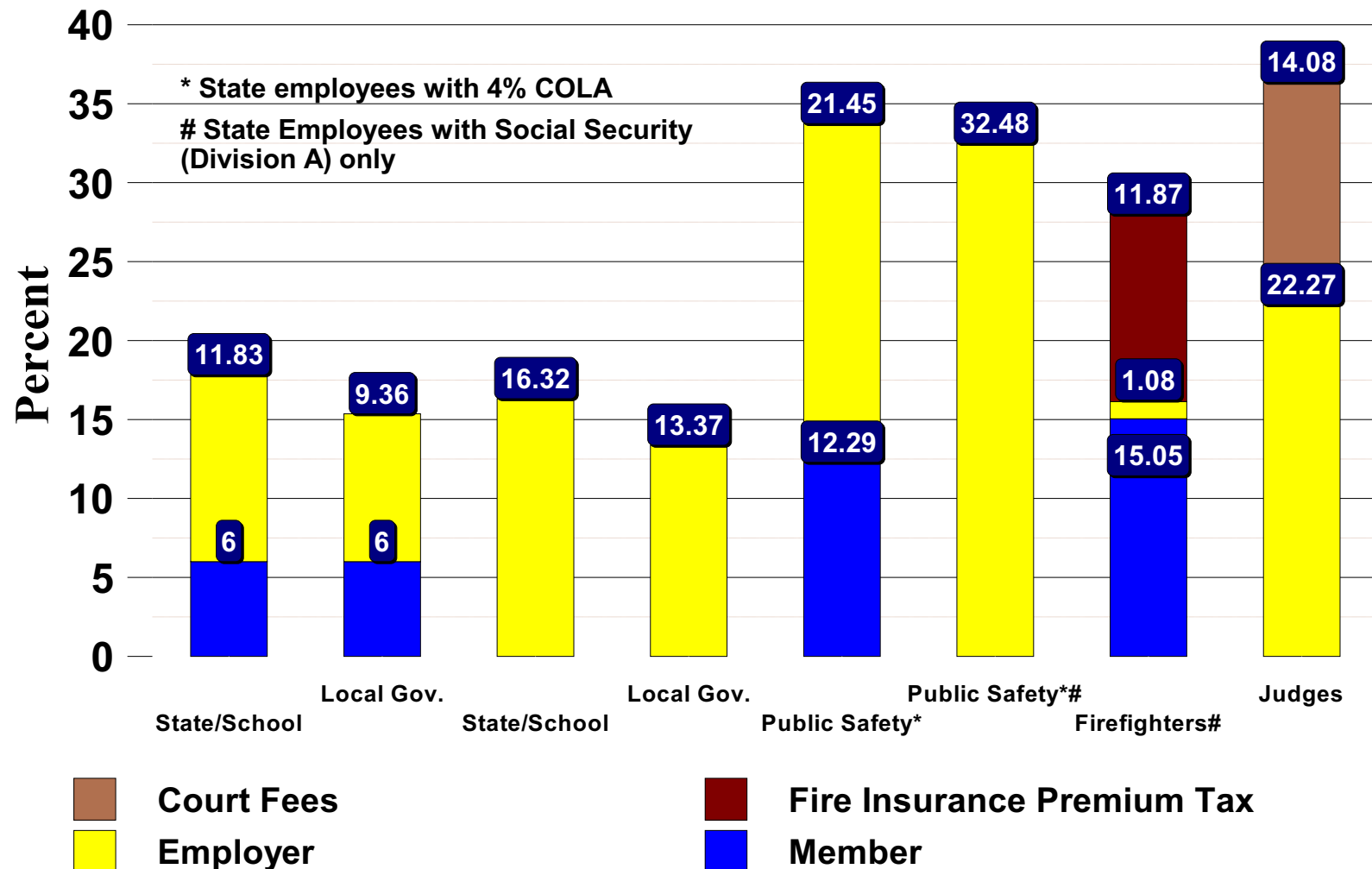
Utah State Retirement Contribution Rate History

State and School Employees
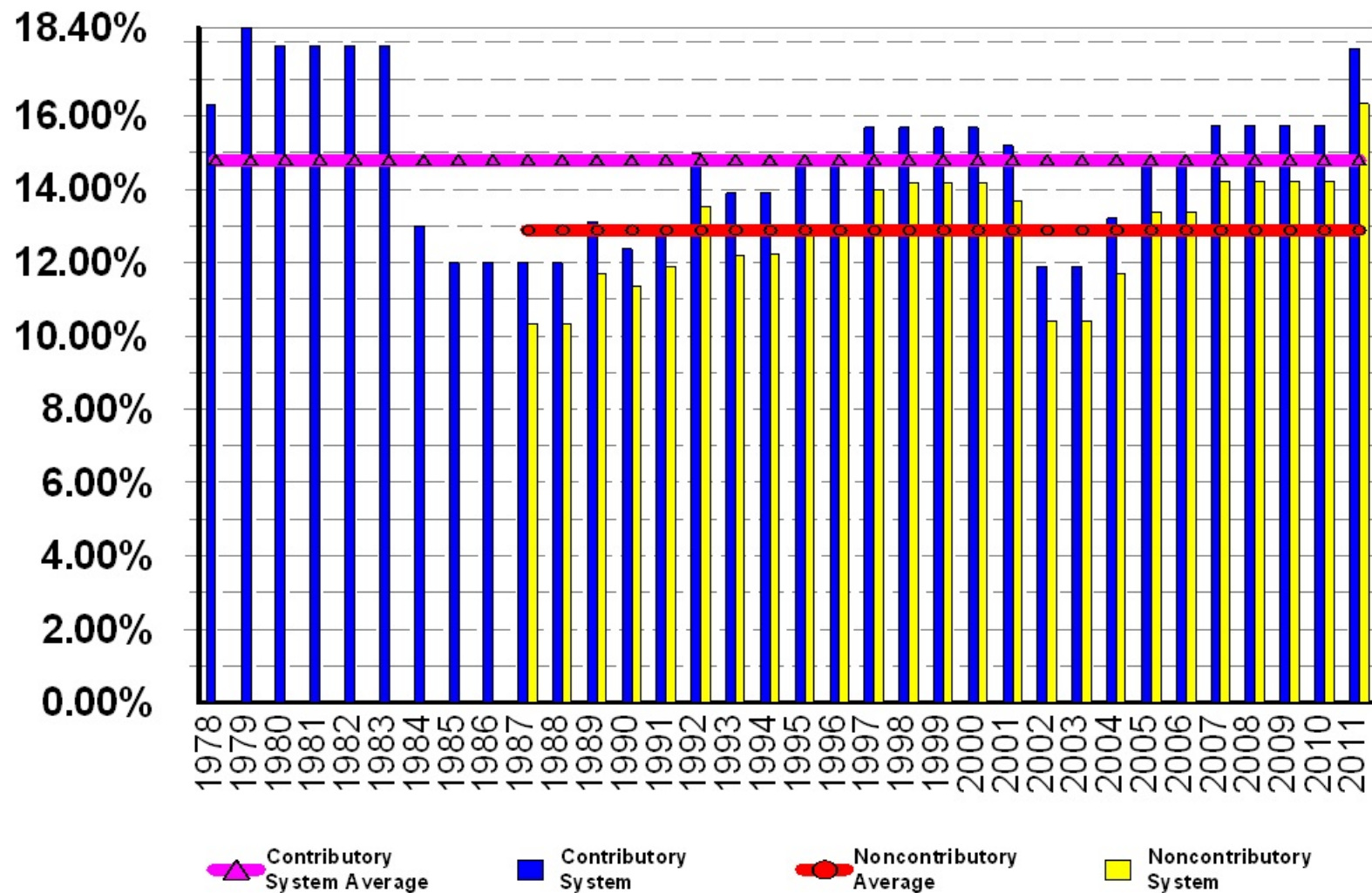
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Public Employees' Noncontributory Contribution Rate History

State & School - Percent of Salary

25 Year Average = 12.88%
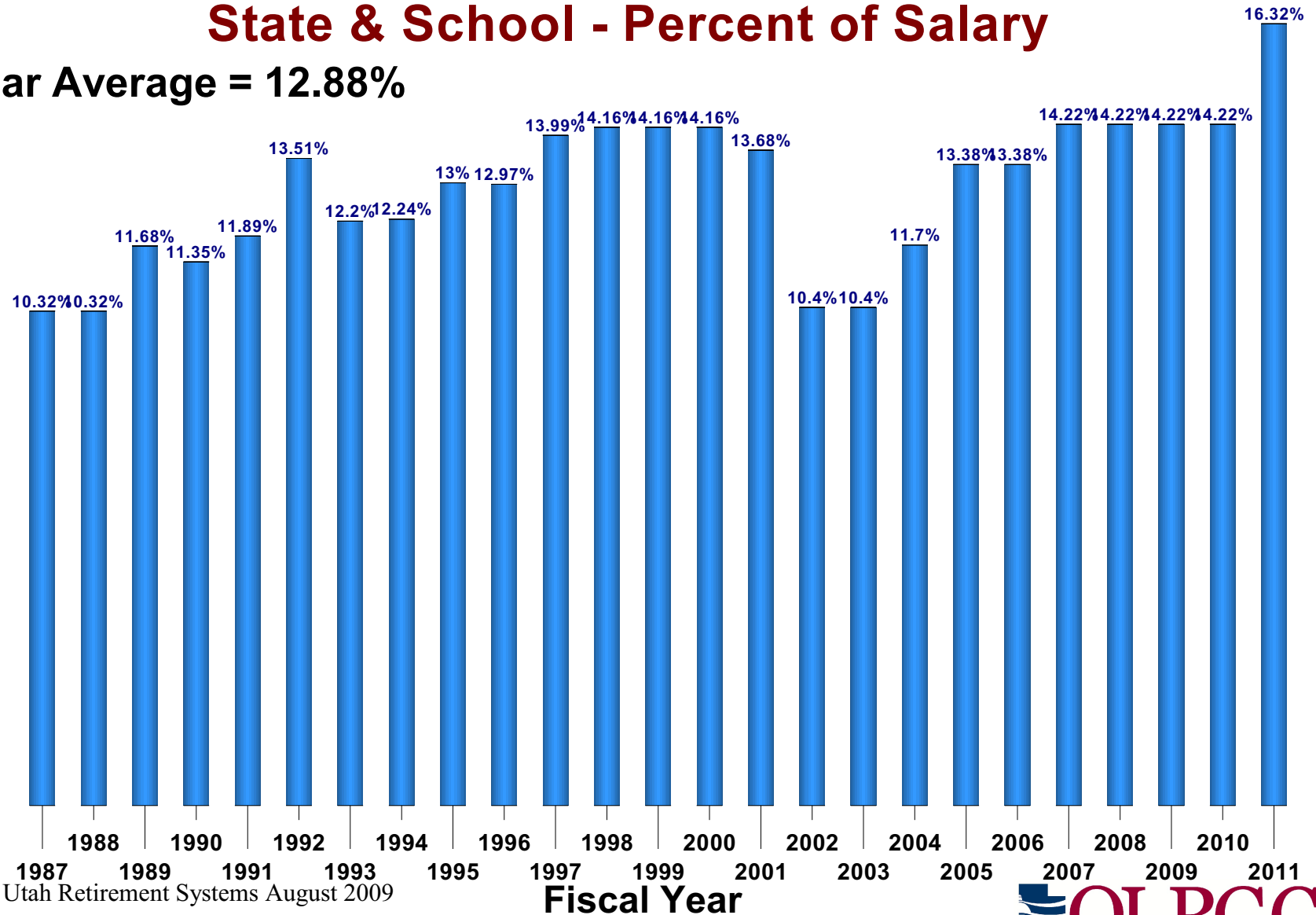
Source: Utah Retirement Systems August 2009

Fiscal Year

August 2009

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Average Annual Retirement Contribution Per Employee

Calendar Year Ending December 31, 2008

Local Government: 5,103
Higher Education: 5,224
Public Education: 5,741
Total State/School: 5,817
State: 6,190
Other Entities: 6,831
Public Safety: 12,370
Firefighters: 13,416
Judges: $37,817
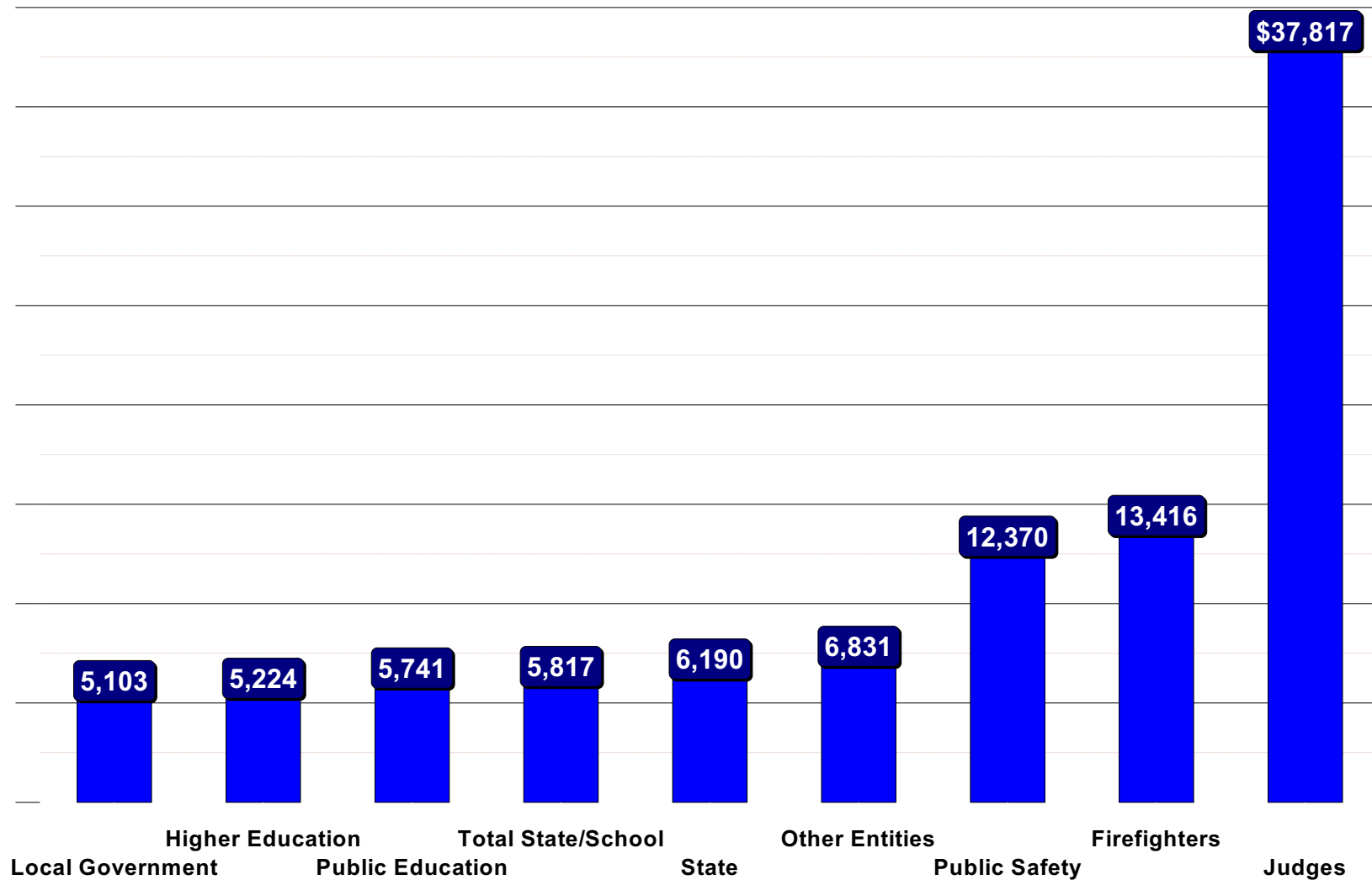
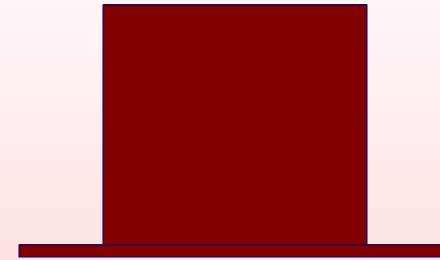Source: Utah State Retirement Systems July 15, 2009

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Role of the Utah State Legislature With Retirement Systems

Two Hats

- **Policymaker for All Six Retirement Systems**

- **Employer:**
  - **State employees**
  - **School employees**

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Evaluating Retirement Systems

Potential Success Criteria

Affordable retirement benefit

Financially sound retirement plans

Predictable employer costs

Reasonable administrative costs

Attract and retain quality workforce

Safe and secure investments

Competitive total compensation package

Inflation protections through fixed income years

Adequate and stable retirement income throughout retirement years

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Objectives of Retirement System

Pension System Principles - Adopted 1995*

- **A Utah public employees' retirement plan must:**
  - ▸ **Be within the employer's ability to pay**
  - ▸ **Be acceptable to the public**
  - ▸ **Be satisfactory to the employees**
  - ▸ **Fit within a competitive compensation system**

*Last amended and adopted by the Retirement Interim Committee November 28, 1995, originally created in 1978

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Purpose of Retirement System

Pension System Principles - Adopted 1995*

- **Utah public pension plans provide:**
  - ▸ Deferred compensation as part of the total compensation package
  - ▸ Enhanced economic security and income replacement in old age
  - ▸ Reward for longevity related to years of service
  - ▸ An income base below which retired public employees will not fall

*Last amended and adopted by the Retirement Interim Committee November 28, 1995, originally created in 1978

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History

**The current benefits for public employees as well as the differences among the various retirement systems
are best understood with a recognition of the history of public retirement in Utah.**

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Utah State Retirement Systems

Historical Overview

- The struggles of employee associations, local governments, and the Legislature to provide employee retirement benefits at the local and state levels;

- The establishment and expansion of the early pension plans;

- The consolidation of retirement programs under one board and office in 1963;

- The Legislature's structural changes and benefit enhancements to each of the systems administered by the board;

- The stability of major retirement benefits since 1991;

- The Legislature's issues of oversight and funding the contribution rate and rising health care costs.

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Definitions of Key Retirement Terms

Qualified Plan

- A "qualified plan" is established by an employer to provide retirement benefits for employees and their beneficiaries.

- Qualified plans include defined benefit plans and defined contribution plans.

- Employees do not pay taxes on plan assets until the assets are distributed and earnings on qualified plans are tax-deferred.

- A qualified plan must operate in accordance with certain laws, including the Internal Revenue Code, in order to maintain its qualified status.

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Definitions of Key Retirement Terms

Defined Benefit Plan [DB]:

- A "defined benefit plan" provides an employee a specific monthly benefit at retirement based upon years of service, compensation, and eligibility.

- Funded through employer contributions that, based on actuarial assumptions including projected growth of investments, are required to provide the predetermined retirement benefit. If the investment performance falls below the projected amount, the employer's contribution rate is increased to cover the projected shortfall.

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Definitions of Key Retirement Terms

Defined Contribution Plans [DC]:

- A defined contribution plan" provides an individual account for each employee, but does not promise a specific amount of benefit at retirement.

- Employees, employers, or both make pretax contributions to the employee's account, subject to contribution caps.

- Benefits are based on the amount contributed and are also affected by investment choices, income, expenses, gains, and losses.

- Employers are not required to make up for any loss on investments.

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